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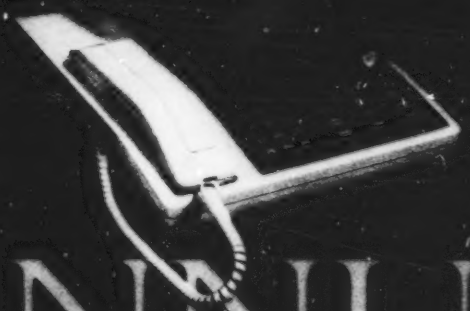

ANNUAL REPORT 1984

The challenge ah

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Table of Contents

Highlights	1
The AGT Commission	2
Letter of Transmittal	3
Chairman's Report	4
President's Report	5
The challenge ahead in phone service	6
The challenge of the marketplace Network marketing Phone Power Mobile Communications Business Communications Altel Data New business networks phoneCentres Directory Department	12
The challenge of serving Alberta and the world Alberta Telecommunications International Ltd. NovAtel Communications Ltd. Alta-Can Telecom Inc.	18
Financial Review	21
Management Report	23
Auditor's Report	23
Audited Financial Statements	24
Historical Summary	34
Officers, Management and Committees of the Commission	36

Highlights

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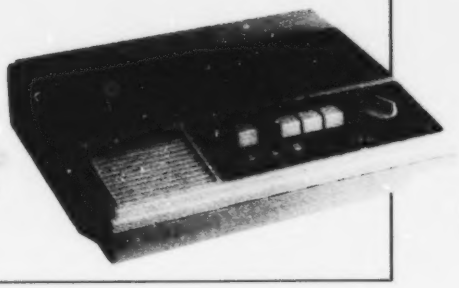
	1984	1983
Plant Investment	**$ 3 139 373**	$ 3 054 239
Capital Expenditures	**$ 215 922**	$ 222 809
Subscriber Lines in Service	**746**	730
Long Distance Messages	**214 357**	205 808
Total Revenues	**$ 978 843**	$ 892 750
Net Income (Loss)	**$ 11 115**	$ (22 914)
		(thousands)

AGT Commission



H.B. Hobbs
Chairman

H.M. Neldner
President

D.F. Baillie
Vice-President
Engineering

R.A. Bichell
Group Vice-President
Canadian Forest Products Ltd.

J.W. Burrows
President
Travacon Ltd.

A.F. Collins
Advisor — Provincial Treasurer

W.A. Graham
Chairman
Western Supplies Ltd.

C.M. Leitch, Q.C.
Managing Partner
McLeod Dixon

V.A. MacNichol
Deputy Minister
Utilities and
Telecommunications

J.R. McDonald
Vice-President
Operations

D.G. Shagen
President and
Chief Executive Officer
Mohawk Oil Co. Ltd.

J. Szaszkiewicz
Executive
Vice-President

F.S. Weatherup
Chairman
Saville Land
Developments Ltd.

Alberta

UTILITIES AND
TELECOMMUNICATIONS

Office of the Minister

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Her Honour
The Honourable Helen Hunley
Lieutenant Governor of Alberta

Your Honour:

I have the honour to submit the Annual Report of Alberta Government Telephones for the year 1984.

Respectfully submitted,

Bob Bogle

Minister
Utilities and Telecommunications

Honourable R.J. Bogle
Minister of Utilities and
Telecommunications

Chairman's Report

1984 was a satisfactory but frustrating year for AGT.

It was satisfactory because, through the efforts of the management and employees, the Company succeeded in turning the corner, in turning from two years of substantial losses to a year of modest financial return. This success was due in part to approval of an overdue rate increase, but the results were a dramatic reflection of increased productivity and spending constraints.

The frustration resulted from the drain on corporate resources of the Company by the actions of the City of Edmonton and 'edmonton telephones' in their attempts to obtain a much larger share of toll revenue and to erode AGT's historical mandate for providing long distance services to all Albertans.

Although this dispute continued into 1985, it is hoped that a resolution will be found that will enable the two companies to resume a normal operating interface.

AGT subsidiaries and joint ventures continue to develop their markets and to progress satisfactorily.

While NovAtel has experienced some start-up problems, these should be resolved in 1985. As a world-class corporation, the company experienced aggressive competition from international companies in cellular telecommunications. It is faced with a world oversupply which is expected to normalize by the end of 1985. A contract was signed with Cantel Inc. for the supply of equipment for 800MHz systems in Montreal, Toronto and Vancouver. The Ford Motor Company, American Motors and Saab chose NovAtel to supply equipment for factory installations. NovAtel continues to work closely with AGT on research and development of products to fill niches in the cellular markets of the world.

Alta-Can Telecom Inc. continues to perform well, given its limited capital base. The three principal investments, Cybernex Limited, Idacom Electronics Ltd. and Telematic Products Inc., are performing very well with results exceeding forecasts. The company continues to seek additional partners in order to optimize its financial resources.

Alberta Telecommunications International Ltd. (ATI) made additional headway in markets outside Alberta. A number of consulting projects in the United States were awarded to ATI as well as a contract to supply software to General Motors in Detroit, Michigan. The company has experienced difficulty with major jobs outside North America due to its limited international reputation and competition by multi-national companies on larger contracts. The experience it has gained has placed the company in a position to be selective in the areas and opportunities it will pursue.

The appointment of Hal Neldner as President, July 4, 1984, was an important decision for the future of AGT. His lengthy experience in the telecommunications industry, his intimate knowledge of the Company and its people, and his recognition of the need to adapt to meet the dynamic changes in the industry are just some of the strengths that he brings to the job. The Commission is confident that he will prove to be an outstanding leader.

Joe Szaszkiewicz was appointed Executive Vice-President on July 4, 1984, in recognition of his special abilities and the added responsibilities he assumed for subsidiaries and joint ventures. This appointment recognized the importance of AGT's continued technological development and its role in the establishment of a high-tech industry in the province.

Two valued members have been added to the AGT Commission: C. Mervyn Leitch, Q.C., Managing Partner of the law firm McLeod Dixon; and Don Skagen, President and CEO of Mohawk Oil Co. Ltd. Mr. Leitch is recognized as one of the outstanding legal minds in the profession and is a former minister of the provincial government, having held the portfolios of Attorney General, Energy and Natural Resources and Treasury. Mr. Skagen brings to the Commission his corporate experience with a highly successful Alberta oil refining and marketing company. He is also Chairman of Alta-Can Telecom Inc. Both Mr. Skagen and Mr. Leitch are board members of other major Alberta and Canadian corporations. They will further enhance the expertise which the existing Commission members provide in the area of finance, technology and corporate management.

Other measures were undertaken in 1984 to prepare the Company for the dramatic changes taking place in the industry.

A five-year Directional Plan was initiated to outline the directions the Company should take in the future and the important policy decisions that must be made. In conjunction with this study, AGT undertook a review of its corporate structure to prepare the Company to meet rapidly-developing competition and technological change.

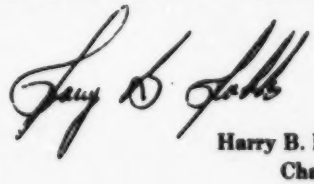
Late in 1984 a Commission task force was established which is now in the final stages of developing recommendations for modification of AGT's financial structure in order to improve its debt/equity ratio. These recommendations will be reviewed and finalized in 1985.

Another Commission task force, chaired by Commission Member John Burrows, developed an AGT position paper on competition. This report will provide an excellent means of communicating the real effects of competition on AGT and on the telecommunication system in Alberta.

AGT must continue to serve the province universally with even greater efficiency and cost effectiveness. We must continue to contribute to the economic diversification of the provincial economy and to participate in the development of viable ventures that expand export markets and provide jobs for technically-trained young Albertans.

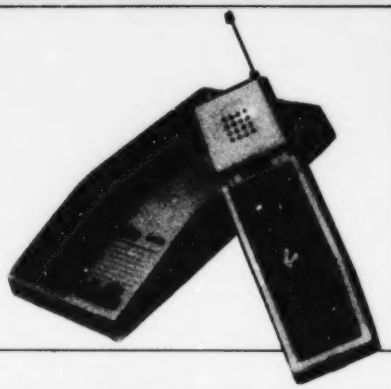
If we are to position ourselves for these kinds of challenges we must make certain that competition in long distance toll is introduced only when it can be guaranteed that universality and affordable local exchange rates are protected.

With initiatives like those inaugurated in 1984 and the continued energy and loyalty of the entire AGT team, I am confident that we will meet the challenges ahead.



Harry B. Hobbs
Chairman

President's Report



The delivery of high-quality, reliable and reasonably-priced telecommunications services in Alberta has always been a cornerstone in the development of this resource-rich province. 1984 was no exception and AGT's mandate, in support of future economic progress and diversification, will take on even greater importance as we face the unique challenges which lie ahead for our industry — accelerated technological and market changes in an era of greatly-intensified competition.

It is therefore with a sense of pride and high expectations that I overview our progress and achievements for 1984 and our readiness to cope with the opportunities and threats of the future.

Much like most Alberta businesses, AGT stepped into 1984 surrounded by considerable uncertainty. Convinced that economic recovery would be slow and gradual — yet cautiously optimistic that the ongoing initiatives to become more productive, efficient and responsive would make it possible to show a marked improvement in operating performance over the previous two years.

Our optimism was well-founded. Earnings from Telecommunications Operations made a major contribution toward achieving a consolidated net income of $11.1 million for 1984, a $34.0 million turnaround from the 1983 loss of $22.9 million.

Underlying this significant improvement in financial performance was our ability to restrict controllable operating expenses and capital expenditures to levels below those for 1983, a strengthening in long distance calling in the second half of the year, and the implementation of rate increases effective July 1, 1984.

In spite of the additional workload resulting from 'edmonton telephones' service disruptions in the City of Edmonton and growth in network connections and toll messages, work hours were trimmed by 3.8% from those in 1983. With stringent restrictions on hiring, management and operating staff responded by finding more efficient ways of accomplishing objectives without affecting customer service. The continuing work of the Productivity Improvement Task Force, which has now been structured into a permanent department, played a key role in attaining these productivity gains and made possible the reassignment of more employees to AGT's subsidiaries, joint ventures and Telecom Canada.

The pages that follow in this report provide details of the many accomplishments and undertakings throughout the year — a reflection of employees working together with enthusiasm and dedication to meet the customers' needs today and prepare for the challenges that lie ahead. We continued to maintain and modernize our plant and facilities, added new digital switching equipment and business networks, introduced new and innovative products and services, expanded the Aurora Mobile Phone System and upgraded the RITE network for the Government of Alberta. We made significant progress in office automation, operator service efficiency, inventory reductions and performance auditing. AGT opened an Operating Unit in the Crowsnest Pass and a Business Office in Grande Cache, creating new jobs in these high-unemployment areas. We strengthened our marketing efforts, provided communications facilities for the Papal Visit and were busy planning ahead for the 1988 Winter Olympics.

Indeed we were busy in 1984 and accomplished much! As noted in the Chairman's Report, we were also busy addressing the future of our Company and the organizational changes that will be required to cope with the emerging market forces in our industry.

As we look ahead to the second half of this decade we realize that the "Challenges Ahead" will demand the very best from all of us. In 1985 we will concentrate much of our effort on:

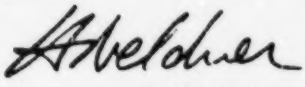
- Communicating and undertaking the strategic initiatives identified in the Directional Plan.
- Introducing the necessary organizational structure to successfully implement these strategies.
- Fostering customer orientation and responsiveness.
- Improving management processes and control systems.
- Maintaining and enhancing our physical infrastructure to meet customer needs through the application of modern, cost-effective technology.

AGT's employees are well-trained, reliable and competent. Their performance in 1984 and over the years has shown that they can adapt to new technologies and requirements and meet new challenges with enthusiasm, dedication and a spirit of teamwork. Our telecommunications network in Alberta is second-to-none in Canada. With these capabilities and resources available to us, and guided by the AGT Commission on direction and policy, we are confident that we can meet the threats of the evolving competitive situation and capitalize on the opportunities for further growth and expansion.

Acknowledgements are due to the many co-workers who left our ranks through retirement in 1984. They made an invaluable contribution and played a key role in shaping this Company over the years. Foremost among this group was past President Jim Barnes who retired at the end of May 1984, and who strongly believed that "actions speak louder than words." While the business world in which we operate may take on new complexities in the years ahead, the basics for effective leadership — action based on example rather than words — will remain the same. I hope the trust our Chairman and the AGT Commission have shown in appointing me as President and Chief Operating Officer will be well founded.

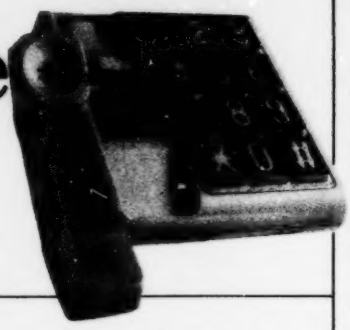
With the cooperation and support of AGT's management team and employees, and the continued close working relationship with our Chairman, Harry Hobbs, my job, while difficult and demanding, will no doubt prove to be stimulating and rewarding.

We look forward to meeting the "Challenges Ahead" with a deep sense of urgency and a great deal of confidence.



Hal M. Neldner
President

The Challenge Ahead in Phone Service

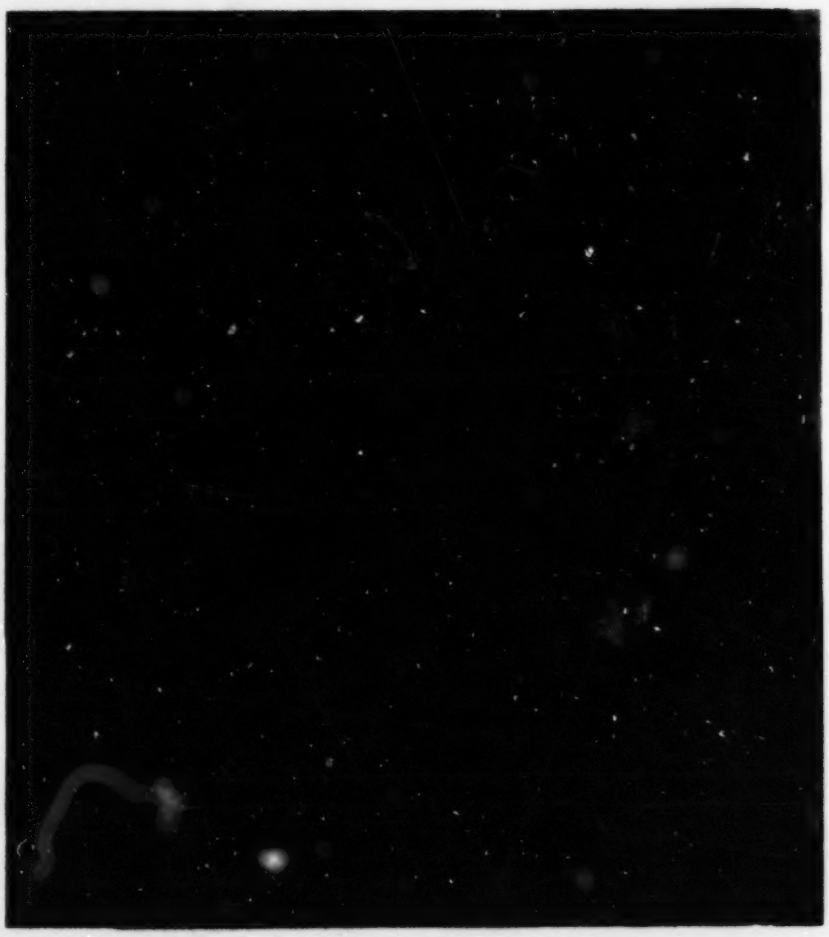


1984 was a year of transition at AGT.

As correctly anticipated by past President J.A. Barnes in his 1983 President's Report, AGT showed a profit. The financial results took a significant new direction from the losses of the two previous years.

Many 1984 accomplishments appear in this Annual Report. They include new network modernization projects, the introduction of new products, further gains in controlling costs and innovations in "doing more with less."

As well, major steps were taken to further the AGT mandate to maintain top-rate telephone service for Albertans as the Company confronts the challenge ahead. Foremost among them were powerful initiatives motivated by the Chairman and the new President to study the impact that increased competition could have on AGT and on all Albertans.



Competition: today's major challenge

AGT does not oppose the concept of competition. Over two years ago the Company introduced the policy that opened up to competition the market for telephones and switchboards.

But as the President said in his October 1984 speech to the Alberta Conference for Economic Recovery: "The *uncontrolled* introduction of competition would make it impossible to fulfill the mandate to provide universal service — a phone in every home at reasonable cost throughout Alberta."

One AGT initiative in 1984 was an in-depth study by a special Commission task force into the impact of possible long distance competition.

Concurrently, AGT participated in the CRTC Interexchange Hearing held October 3 to November 16. The main purpose of the hearing was to address potential competition affecting Bell Canada and BC Tel; but the question is of major concern to all telephone companies and their customers — especially with respect to the negative impact *long distance* competition could have on *local* rates.

This was in the forefront of the AGT task force's thinking during its 1984 studies. The studies are a preliminary step to communicating the effects of competition on Alberta's telecommunications system, which has a solid tradition of telephone service to protect.

Closely related to competition and other challenges is the question of the *direction* AGT should take during the next five years. In 1984, the development of the Corporate Directional Plan was initiated. The project was guided by an Executive Steering Committee (the Chairman, the President and the Executive Vice-President) and a six-member task force representing the varied functions of AGT.

More digital network facilities added in 1984 provided customer benefits like faster call handling and advanced telephone services.

They worked energetically to address the dramatic changes taking place in the market, in the traditional role of telephone companies, in technology and in service demand; and to determine how AGT should respond to the impact of these changes. This was the first step in the development of a total AGT Strategic Plan.

Implementation of the plan is scheduled to start this spring. It will provide a solid foundation for a *repositioned* AGT. In addition to fulfilling its mandate to provide universal basic service, AGT must extend its role as a market-driven telecommunications company.

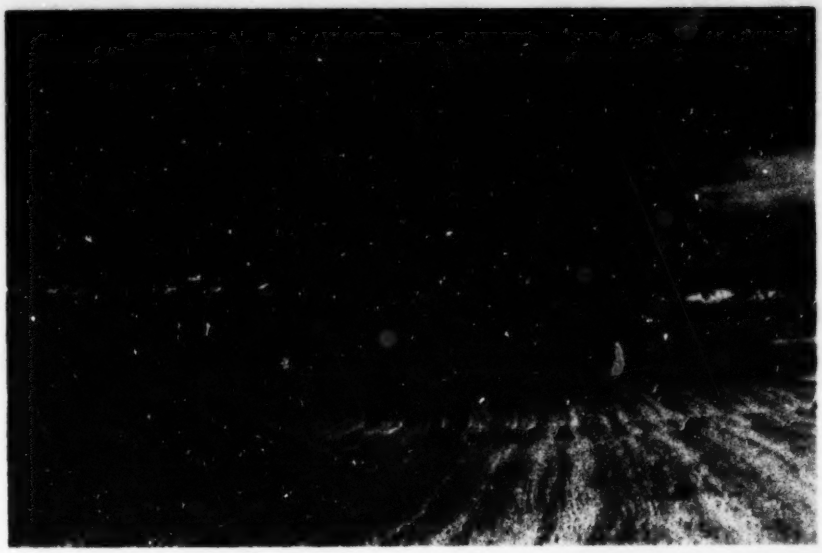
In line with the Directional Plan, AGT undertook the Corporate Organization Structure Review. This will ensure that an efficient structure is in place to fully and effectively support the initiatives that flow from the Directional Plan.

Productivity improved

The Productivity Task Force set up in the previous year became the Productivity Improvement Department in 1984. It made new strides and has now homed in on some 20% of the Company.

The results are measurable gains in people productivity. Many managers were able to accomplish more with the same number of people — or to redeploy under-utilized human resources to areas where their loyalties, talents and skills could be fully applied.

Each hair-thin optical fibre can now carry up to 2,000 conversations at once.



Long distance revenues helped provide low-cost telephone service in rural and remote areas of Alberta.

It also completed studies on the use of computer hardware by Systems and Methods, resulting in reduced operating expenses and the deferral of capital expenditures.

On October 31 the Executive Management Committee (formerly the Executive Officers' Committee) endorsed a program for the next two and a half years. Together with people productivity, it will cover such major cost components as energy consumption, inventories, vehicles and work equipment.

Optimizing internal communications

To keep offering Albertans one of the world's top telecommunications services, AGT is working to optimize its own *internal* communications.

A new division in Systems and Methods was established to introduce effective corporate standards in office automation. The payoff will be higher productivity through electronic messaging technology and direct access to vital management information.

All phases of internal communications from basic phones to computer-driven terminals were studied in 1984. Recommendations include hardware/software to communicate via terminals — a plan based on today's lower terminal costs. Also recommended is a new package to give employees fast access to the large AGT data base. Under development is a plan to take advantage of merging voice and data communications.

A major office automation technology trial was undertaken by the Systems and Methods Department. It involved about one thousand users from all areas of AGT. The new technology is seen as having a positive impact on most office functions. Significant productivity gains are projected.

Business Office Modernization extended

In the Commercial Operations' "BOM" project, Service Representatives use video terminals to access customer information in seconds — even while talking to the customer on the phone.

"BOM" was initiated in 1983 in Calgary and Edmonton. In 1984, its dramatic productivity/efficiency increases were extended to five more commercial offices — Medicine Hat, Vegreville, Grande Prairie, Lethbridge and Red Deer.

The project eliminates paperwork by some 95% and frees staff for other duties. It saves time for the Service Rep and for the customer in the office or on the line.

Cost-efficient productivity resulted from studies initiated by the Productivity Improvement Department.

More steps to improved performance

It is estimated that annual savings of $2.1 million should result from the Performance Improvement Review program coordinated by Operations Methods. During the year 115 managers completed performance analysis training and 17 trouble-shooting reviews were conducted.

Another new Operations project was the Operator Services Efficiency Modernization team. Several of the team's recommendations were approved for an estimated cost efficiency of $1 million.

Expenses controlled, service improved

In 1984, AGT's human resources continued to play a significant role in controlling expenses and improving service.

An excellent example is the cost-saving, in-house ingenuity shown by the Printed Circuit Boards unit. Previously, AGT's circuit boards had to go out of province to be repaired, but the unit now repairs them with the aid of analytical and diagnostic computers. In the 18 months to the close of 1984, this saved $2 million.

AGT people have also given overwhelming support to the Energy Saving Program inaugurated near year's end. They have already submitted many innovative ideas to save on electricity, natural gas and gasoline. With continued enthusiasm the program is expected to appreciably reduce energy costs.

Except in unique circumstances, the hiring freeze introduced in 1982 stayed in effect. An important exception was the hiring of temporary staff to help alleviate the problem caused by 'edmonton telephones' scrambling of billing information. Even so, work hours were reduced by nearly 4% from the year before.

Also, nineteen graduates joined the Company. In the challenging years ahead, AGT must maintain its resources of technical and professional talent.

Other major exceptions were made close to the end of the year. Twenty local people were hired for the new Crowsnest Pass Remote Operating Unit and eighteen for the Grande Cache Business Office. Both areas have been hard hit by unemployment. In each of them, however, the new AGT facilities are expected to boost their individual economies by about $400,000 a year. As the Chairman stated:

"We hope this move will encourage other business activities. AGT has a corporate responsibility to the communities we serve, especially when they become victims of circumstances over which they have no control."

Even with such special exceptions, the hiring freeze helped bring about significant savings.

In negotiations with the International Brotherhood of Electrical Workers, the extension of the Craft contract for an additional year at no increase also helped to hold the line on costs. Negotiations with the Clerical union resulted in a new contract early in 1985, while negotiations with Traffic continued.

While staff has been reduced through attrition over the past three years, a concerned management was determined not to resort to layoffs. A measure taken to further reduce staff levels was to offer a second attractive Voluntary Early Retirement Incentive program. In 1984, seventy-four employees accepted its provisions. Their valued contribution has helped to lay the foundations for the AGT of the future.

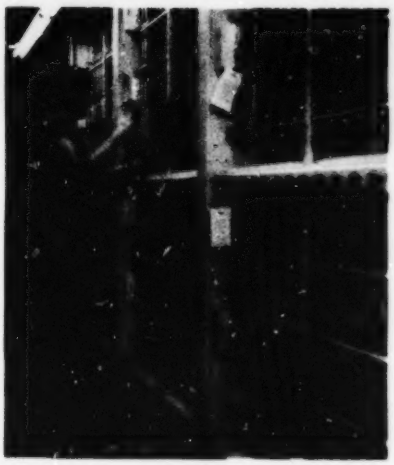
Although the economic climate dictated a reduction of $6.9 million in the construction program, service improvements went ahead and the year saw important progress in network modernization and expansion.

- The Company's highly efficient *analog* network is steadily giving way to the still greater efficiency, flexibility and economy of *digital* transmission and switching. At the end of 1984, the digital lines serving AGT customers rose to 35% of total lines.

A typical AGT Traffic Operator Positions System (TOPS). A new one brought needed employment to Crowsnest Pass.

- A digital radio route between the Cheadle and Chipman Radio Relay sites increased capacity and reliability between Edmonton and Calgary. Incremental digital radio channels met growth needs between the Cheadle site, Lethbridge and the B.C. border. And a digital radio and pulse code modulation network from the Kavanagh to the Sundance Beach Radio Relay sites brought added toll facilities to five more *rural* communities.
- Calgary's fibre optic network was expanded with links between the Main and Bowness exchanges plus the Capitol Hill, Forest Lawn and Airways exchanges. The addition of a fibre optic entrance link from the Chipman Radio Relay site to the Edmonton toll switch is planned for 1985.
- Calgary's new Airways exchange neared completion. In 1985, it will serve this industrial area with a new generation of sophisticated DMS-100 digital switching. It will relieve congestion at the Crescent Heights and Temple exchanges.
- To support Lethbridge's residential and business growth potential, state-of-the-art remote digital switching was provided at the Battle Heights location. Remote digital switching also came to Bragg Creek; here, for the first time, AGT personnel did their own detailed engineering for a Remote Line Module installation.
- Digital switch service went on stream in Banff, Stony Plain and the Calgary local exchanges of Hillhurst, Huntington Hills and Capitol Hill. The projects added hundreds of extra lines to meet present and future needs. In Banff, for example, the new equipment replaced 3,400 telephone lines of the older "step-by-step" system with 4,000 digital lines. Customers find the new equipment faster and quieter. And now, residential and business users in Banff and Stony Plain can enjoy the same custom calling services as those in larger centres.
- Thanks to 1984 network improvements, 68% of all Alberta individual-line customers have access to custom calling services — and Touch-Tone is available to everyone with single-line service.

- Capitol Hill, which went into service in 1953, was the only step-by-step office left in Calgary — until Sunday, November 18, 1984. On that day, the new exchange processed 215,000 calls on its new digital equipment serving 25,000 lines.

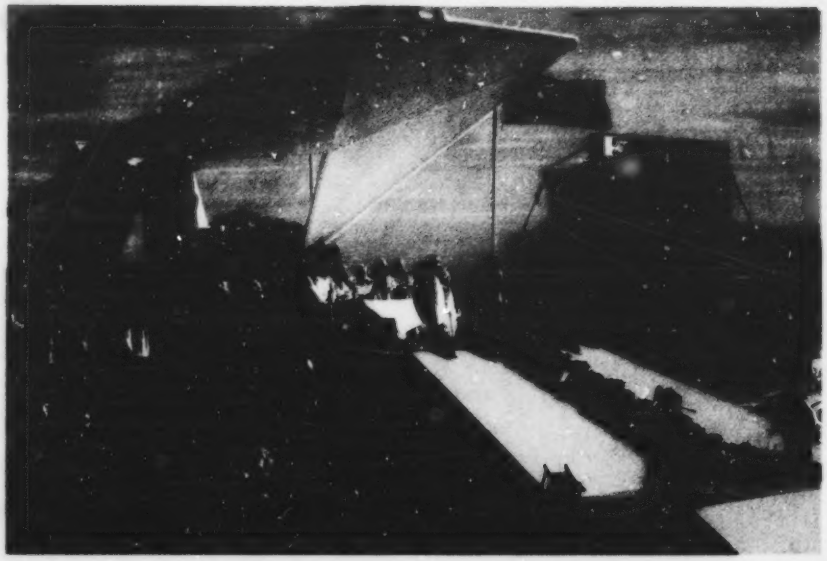


In Capitol Hill fully digital switching replaced Calgary's last "step-by-step" exchange equipment.

- The new Crowsnest Pass Remote Operating Unit opened in December. This TOPS (Traffic Operator Positions System) remotely handles part of the long distance traffic for Calgary and 54 surrounding communities.

- In confronting the challenge ahead, the Operations Department took advantage of technological advances in network switching — and responded to increasing customer service expectations — by developing a sophisticated new Fundamental Operations Plan. It is based on the structured development of Control Centre operational systems to control and monitor facilities, services and personnel activities.
- Fundamental to the plan will be two new Broadband Operations Centres. The Calgary Centre became operational in December, and the Edmonton Centre will go on stream in fall, 1985.
- Fibre optics of the future! A new system that lets a single strand carry up to 2,000 conversations at once is being tested by AGT and Northern Telecom between the Edmonton toll office and the Sherwood Park microwave site. The system dramatically reduces the number of repeaters needed, sustains strong signals and handles massive information volumes at high speeds.

Fibre optic cables carry massive information volumes at the speed of light.



- Research and development was set in motion on *pole line digital radio*. Telephone poles could come back into their own — but in a new high-technology way. In 1984, AGT engineers researched the application of pole line digital radio technology. In 1985, a field trial will test the viability of the technology, which could replace miles of cable across rural Alberta. It resembles a "mini-microwave" system. Digital radio equipment transmits voice and data messages between a series of poles set three miles apart. One of the first uses foreseen is to quickly restore service at low cost when rural buried cable is damaged. AGT also continues to seek cost-effective solutions to providing rural Albertans with individual line service.

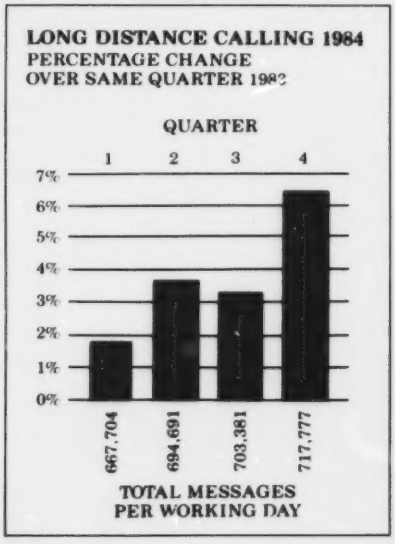
Long Distance service

Residential and business long distance calling accounts for 62.9% of AGT's revenues.

It has long been a practice to use profits from long distance to support unprofitable local service and provide affordable telephone service to virtually everyone. Long distance revenues have helped provide low-cost telephone service, particularly in small communities and in rural and remote areas of Alberta. AGT is concerned about any moves toward increased long distance competition until it is determined that this will lead to a net reduction in costs to the telephone user.

In 1984, toll messages increased by 4.2%. Stimulation of the residential market included a cross-promotion with Kodak on the Long Distance Gift Certificates program and a very successful Christmas promotion of this product.

Due to the interim rate increase and the growth in messages, long distance revenue increased by $44.6 million in 1984.



AGT helped provide communications facilities for worldwide broadcast coverage of the Alberta Papal Visit, plus a giant videoscreen to give everyone at the Mass a close-up view.

Alberta Papal Visit: A telecommunications triumph

"You should all be tremendously proud of your contribution and its results," wrote J. Kane of the Papal Secretariat to AGT.

He referred to the effort and dedication of the Company's employees in helping ensure the success of Pope John Paul's historic visit to Alberta, September 16 - 17, 1984.

Their efforts showed the world AGT's ability to provide integrated telecommunications services that included:

- Toll network access and public telephones.
- Broadcast services for local, national and worldwide radio and television.
- Sound systems, a giant video screen, closed circuit TV, intercom.
- Mobile communications service and private telephone lines.

During his visit, the Pope made pleasant quips about the wind. One of the problems AGT Special Services solved *was* the wind. For the outdoor mass, they devised a microphone assembly that picked up every word His Holiness spoke — but hardly a breath of the wind that gusted boisterously during the ceremony.

The Mechanization of Switch Surveillance (MOSS) system developed by AGT Operations can monitor an entire network at a glance.

AGT and 'edmonton telephones' ('et')

On February 14, 1984, due to an ongoing dispute about long distance toll sharing, City-owned 'edmonton telephones' scrambled Automatic Number Identification data needed by AGT to bill calls. AGT had to implement Operator Number Identification for Edmonton-originated calls.

The City is seeking a larger share of toll revenues and filed a Statement of Claim for $116 million on a retroactive basis for 1980 through 1983. It would not agree with the Province that a ruling should come from an independent body such as the Public Utilities Board of Alberta, since the City is the sole regulatory body over the telephone system it owns.

Negotiations continued toward an equitable settlement.

Interconnect hearing won

A case involving a dispute with the Canadian Radio-Television and Telecommunications Commission (CRTC) and CNCP Telecommunications was heard in Federal Court in Edmonton by Madam Justice Barbara Reed.

The purpose was to determine if CRTC has jurisdiction to decide if CNCP should be allowed to interconnect its system with the AGT network.

The decision of Madam Justice Reed on October 26, 1984, stated that the CRTC did not have the jurisdiction to decide if CNCP should be allowed to interconnect its system with the AGT network. CNCP has appealed.

The challenge ahead

AGT will continue to confront major changes in economic conditions, a changing business environment and the emergence of competition.

As it does so, the Company can draw upon:

- Its solid base of people skills and loyalty.
- Its vast fund of leading-edge technology.
- Its team spirit and dedication to providing Albertans with a phone service that's second to none.

With these strengths AGT is a confident, success-oriented team, gearing up to meet the challenge ahead.

Repairing its own printed circuit boards saved AGT two million dollars.

The Challenge of the Marketplace

Modern marketing plays a vital role in day-to-day AGT operations. It will play an even larger role in years to come. That is part of "the challenge ahead."

The services and products marketed help AGT provide quality phone service even for areas of the province that in themselves are unprofitable. To keep providing it is part of the *universal service* mandate — "a phone in every home."

Network marketing

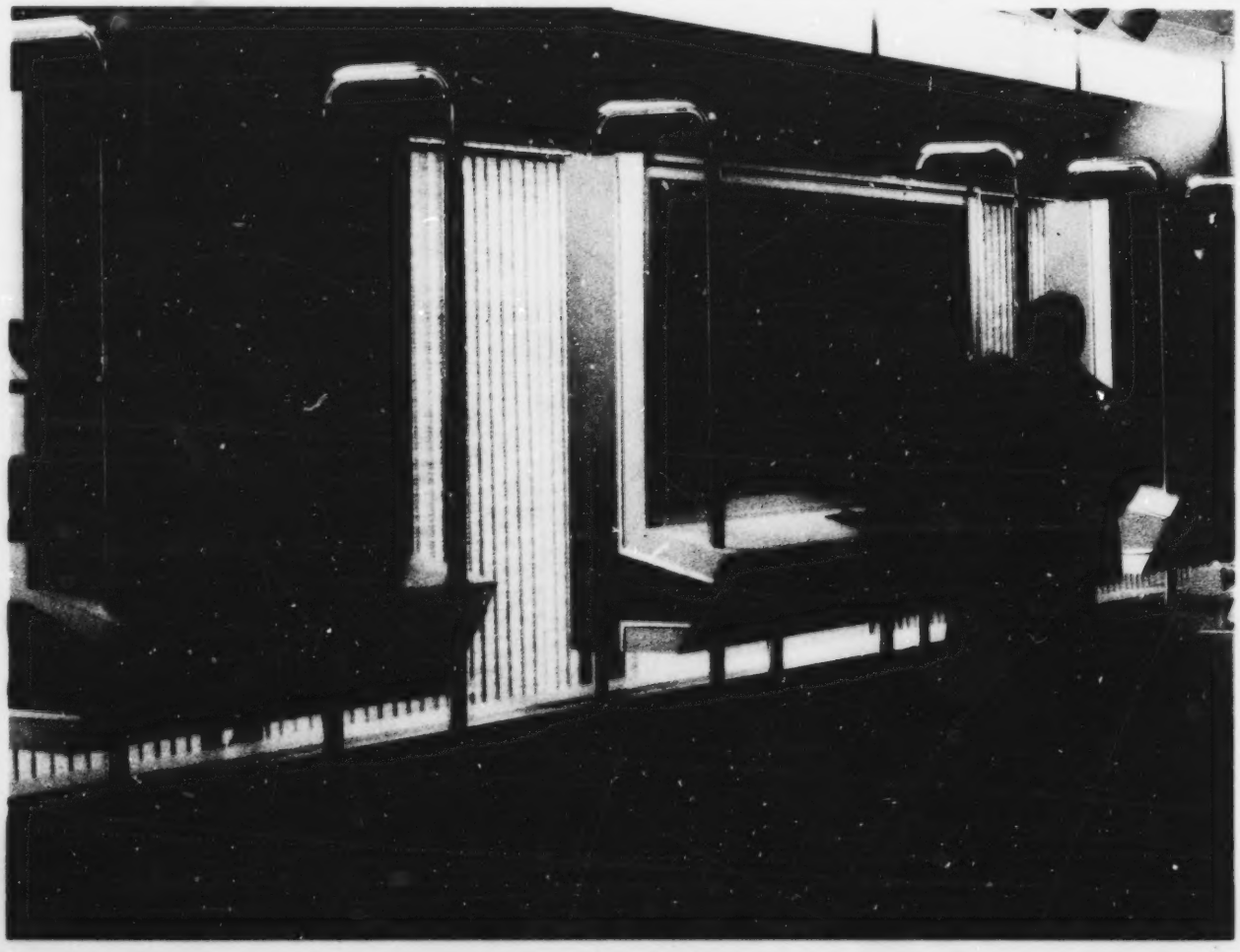
AGT markets network services that are unsurpassed in Canada. They include cross-Canada networks which AGT helped to build. These in turn link with international services.

Along with the eight other regional telephone companies across the nation, plus Telesat Canada which owns the national satellite system, AGT is a fully-autonomous member of the coast-to-coast telecommunications association — Telecom Canada.

The importance of keeping this association strong is paramount. Its members work closely with each other to serve Canadians regionally, nationally and internationally.

Naturally, each autonomous member company of Telecom Canada has a large stake in *Inter-company Services Coordination*. In 1984, AGT exceeded the Inter-company Services Coordination objectives set by Telecom Canada for order volumes.

The most important "ICS" project was the Royal Bank of Canada's High Speed Deriving Network in Southern Alberta. This involved 128 AGT-generated Telecom Canada orders and replaced a major com-



Business Communications display shows voice, data and graphics networks which AGT helped to create.

petitor's facilities and equipment at all Royal Bank locations from Red Deer to the United States border.

As a result, AGT is now the sole data network services supplier to the Royal Bank in Alberta.

Thanks to the efforts of the service provisioning groups, spurred on by the problem-solving efforts of ICS Coordination staff, AGT made significant gains in its 1984 Telecom Canada Customer Services order performance. The ICS section did more with *less* — achieving a 22% productivity increase thanks to higher order volumes and staff reductions.

Actor Larry Mann is synonymous with AGT long distance offerings.

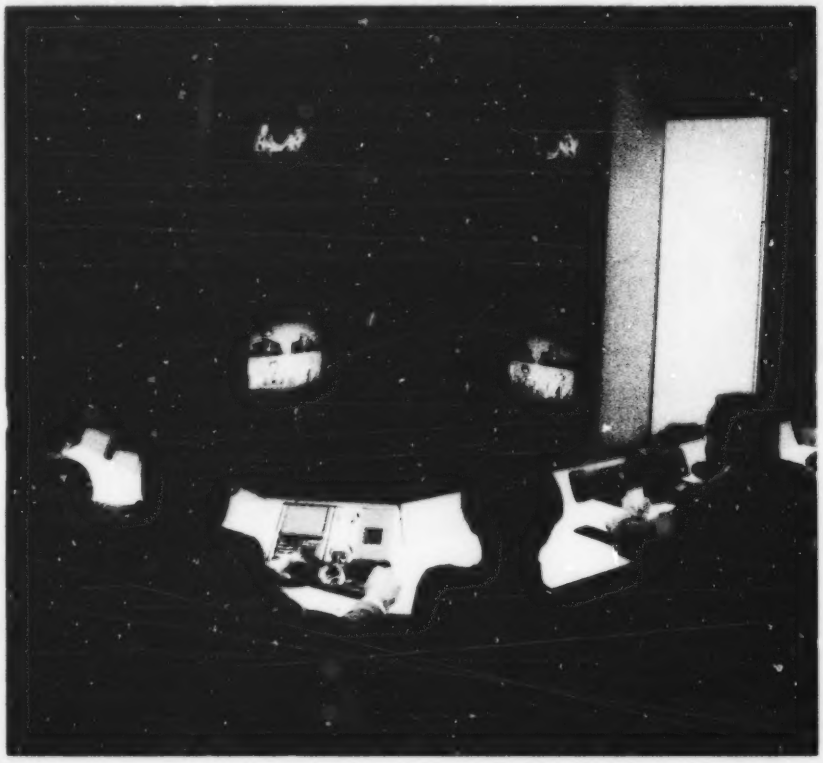
Phone Power

AGT Phone Power specialists help businesses maximize their profit potential through innovative use of the telephone.

In 1984 the Phone Power team, administered by Telecom Canada, generated $3.4 million in new AGT long distance revenues.

Major success stories include:

- Three-year contracts for educational teleconferencing networks throughout Alberta for the Alberta Hospital Association and the Education Consortia of Alberta.
- R. Angus Alberta Ltd. established, with Phone Power's help, a telemarketing system to increase heavy equipment and parts sales through local and long distance communications.
- Edmonton-based First Choice-Superchannel, a provider of commercial-free general-interest television to retailers across Canada, was the nation's first user of 900 Service to encourage viewer participation.



Conference Television saves Alberta business people time and travel costs.

Leading-edge networks and products

Three AGT special divisions bring the residential, business, industrial and agricultural markets a unique range of services in the new information age.

These divisions are Mobile Communications, Business Communications and Altel Data. They work in close harmony with AGT Corporate Development — Network Services. And to an ever-increasing degree, they work in close harmony with each other to give customers the benefits of merging high technologies and combined services.

A teamwork highlight in 1984 was the turning up of Canada's first private satellite-based communications network for Imperial Oil Limited. The major sales coordination in Alberta for the history-making project came from Business Communications, and the major engineering from Altel Data.

The system is the first of its kind in Canada to use Time Division Multiple Access technology. It gives integrated voice and data communications between Toronto, Calgary, Norman Wells and Tuktoyaktuk.

Mobile Communications AURORA system expands

North America's first full-roaming cellular mobile phone system, introduced by Mobile Communications in 1983, saw major expansions in 1984. The AURORA 400 system pushed south from Edmonton to Red Deer and Calgary — then northwest to Grande Prairie.

Along with voice quality that compares with the regular phone network, the Touch-Tone AURORA offers direct dialing, automatic tracking, call forwarding and speed calling. These and other features make it the mobile equivalent of the home or office phone.

At year's end there were almost one thousand AURORA 400 users. Many more will be added when the system goes province-wide in 1985.

A remarkable Mobile achievement of 1984 was the reversal of the decline in connections in its General Mobile Communications system — now with nearly 23,000 subscribers, a growth of more than 12%.

Mobile continued to invent and innovate. Already known for such products as its Automatic Reporting Unit and PERILS emergency reporting system, it added:

- STARS (Status Timing Alarm Report System), developed for several oil companies. Using the latest micro-processor technology and a new generation of programmable control heads, STARS lets oil companies keep in constant touch and monitor the status of field personnel at remote production sites where dangerous hydrogen sulphide gases may be present.
- MDMRS (Multi-Departmental Mobile Radio System) for sophisticated communications between government departments. It is software-programmable and adaptable to any supplier's 400 MHz radio equipment. Over the next two years, MDMRS will expand province-wide.
- CASS (Computer Access Security System) intercepts and controls unauthorized access to computer systems.
- 1984 saw the field trial of the 800 MHz trunked system — the new state-of-the-art system for affordable, quality shared-channel two-way radio with individual privacy.

In meeting the challenge of 1984, Mobile Communications provided customers with innovative alternative financing options and competitively-priced quality products.

Business Communications: New projects, products and SalesCentres

The 1982 decision allowing terminal interconnections resulted in a volatile market. In 1984, the staff's dedicated efforts and team spirit positioned AGT Business Communications as a leader among telephone companies in competitive markets.

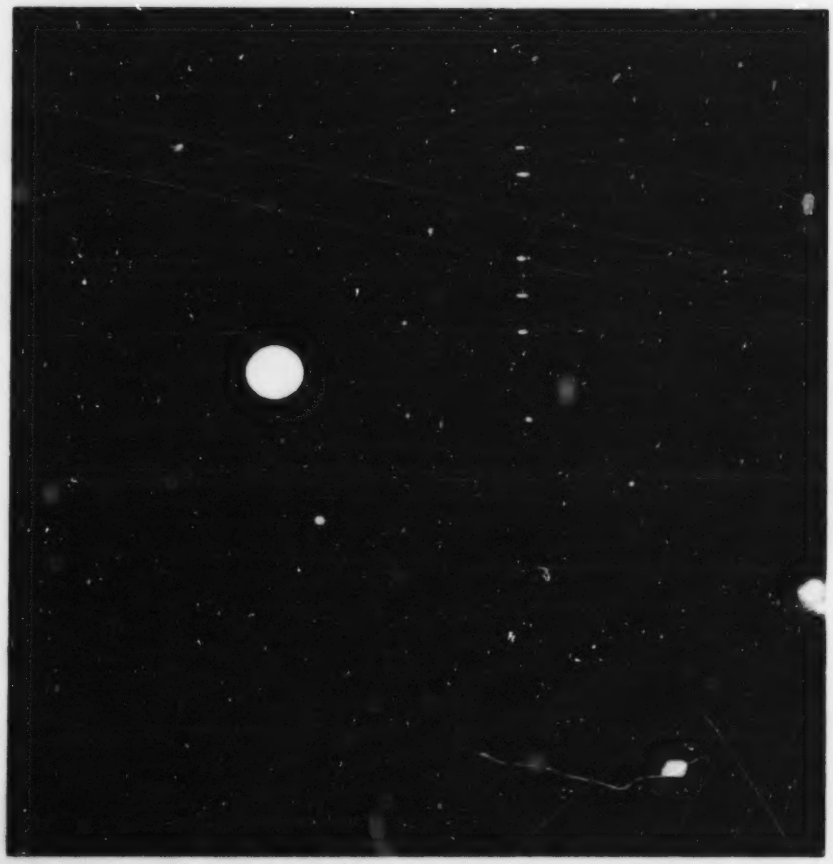
Project highlights of 1984:

- The RITE system, the toll-free public information network that gives the general public access to most provincial government departments, was upgraded in 1984. DMS-100 digital switching features were installed to ensure more reliable performance with greater ease of maintenance and expansion. It now handles voice and data communications at high speeds. 5,100 lines went into service in Calgary, 900 in Red Deer and 400 in Grande Prairie. 1985 will mark the fourth major installation: Lethbridge. This brings to the provincial government the most advanced private business communications system available in the industry.

Mobile Communications' 23 service centres are strategically located throughout Alberta.

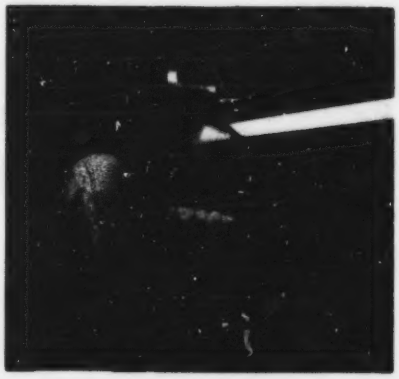
Meanwhile, the National and Major Account Group responded to large customer demands. This was largely through joint planning and coordination with other Telecom Canada members. In addition to Imperial Oil's satellite network, 1984 projects included:

- Canadian Pacific Limited. This client has indicated respect for AGT as a progressive Telecom Canada member. After numerous meetings, with support from all involved AGT forces, AGT won a substantial portion of an upgrade and addition to CP's Calgary SL1-LE system.



An Arctic Ocean drillsite — photo courtesy Imperial Oil Limited, whose satellite-band communications network is a first for Canada and AGT.

- **Bank of Montreal Commercial Banking Units. After interconnect, the main Bank of Montreal Calgary office system went to an AGT competitor. But AGT kept up a high level of service and, in 1984, was successful in securing a major sale of equipment for the bank's new "CBU" concept at five major centres. The equipment provides excellent management control over network services. The success of the sales, and that of Bank of Montreal's "CBU" concept, has encouraged four other banks to pursue the idea, with further sales potential for AGT.**
- **The University of Calgary new communications system. In heavy competition, ten bids were narrowed down to three. AGT won the contract. The system will be a Northern Telecom 5,000-line SL-100 with the potential for 30,000 lines. Initially it will service the campus and Health Sciences Centre.**



The Royal Bank of Canada was among the network customers added in 1984. Photo courtesy Royal Bank.

The success of the *Calgary Business SalesCentre* led to the opening in October of similar centres in Lethbridge and Red Deer.

The new stores have enjoyed early success thanks to their high visibility, ample parking, helpful displays and knowledgeable, customer-oriented sales people.

Business Communications terminal sales increased 6.8% over 1983. A popular addition to the product line was the Electra 616 Electronic Key System — ideal for small businesses requiring up to six central office lines and 16 key telephones. Customers have high praise for Electra 616 features normally found only on large systems. They include speed dialing, last-number redial, conference call capability and one-step transfer that prevents calls from being lost. Business Communications sold close to 600 systems since Electra 616 was introduced in May, 1984.

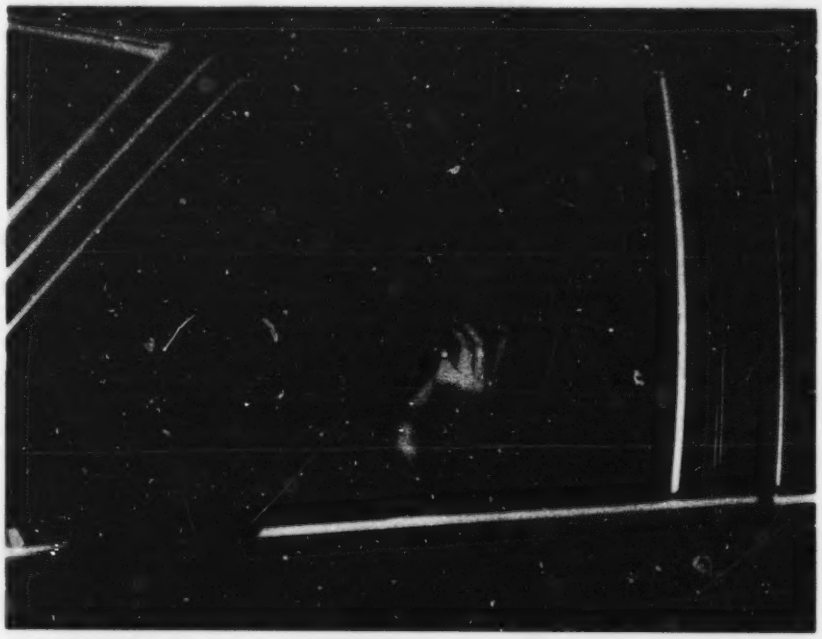
Customers reluctant to pay for replacement PABXs respond to new peripheral products and services that enhance and give longer life to their present systems. Late in the year Business Communications introduced two Call Detail Recording Systems designed to do just that. In the present economy, both have splendid sales potential.

With the proliferation of computers in business, 1984 brought new opportunities in integrated voice and data services. Business Communications' expertise in the field was increased through trials conducted with Alberta Wheat Pool, Union Oil Company of Canada Limited and Co-Operators General Insurance Company.

"The Altel Advantage"

In its 1984 promotions, Altel Data urged its prospects to "Connect with the Altel advantage".

Altel Data is the computer and data communications division of AGT. And for the customer, the "Altel advantage" is that this division is unique in its ability to provide one-stop solutions for data communications and information-processing needs.



In 1984 the Aurora cellular mobile network expanded from Edmonton to Red Deer, Calgary and Grande Prairie.

Through its wide range of products and services, and its after-sales support, this Alberta computer/data communications organization is among the top performers in the Canadian data industry.

Performance-conscious businesses continued to buy computer terminals and peripherals from Altel Data. The impressive peripheals product line from leading manufacturers was strengthened by data storage devices actually designed and assembled by "Altel".

Clients continued their close scrutiny of communications and computing costs — and Altel Data continued to meet their needs for optimum value despite more competition from national and multi-national competitors.

Keeping abreast of technological advances, competitive thrusts and the needs of the marketplace, Altel Data will help increase Alberta's presence in the new information age.

New business networks

During 1984, AGT Network Services strengthened its position as Alberta's prime supplier of telecommunications.

One way in which it did so was by increasing AGT's network services to the regional and rural markets. In addition to expanding Mobile Communications' AURORA 400 cellular mobile service and modernizing the RITE network, AGT introduced:

- Altel Data's AltaNet 200 and 300. This province-wide digital network services 27 centres, including numerous smaller communities. Now they have low-cost data transmission capability with speeds from 2.4 kilobits to 56.0 kilobits per second — the same as larger communities.
- CityNet — a dedicated data network available through Altel Data, with speeds from 2.4 kilobits to 56.0 kilobits per second in the Calgary base-rate area.

Working in conjunction with the other autonomous members of Telecom Canada, AGT also brought Albertans new ways to communicate nationally and internationally.

- 800 cross-border service is a highly cost-effective selling tool. Alberta businesses can now receive calls via the network from customers and prospects in a large geographic area of the United States. In Canada, 800 service has been extended to Northern B.C., the Yukon and the Northwest Territories (District of Mackenzie).
- 900 Service is a message toll service that lets customers phone numbers to hear recorded messages, or to take part in call-in surveys such as opinion polls.
- Teleroute 200 provides for a dedicated Interexchange Voice Grade channel between service points. Each channel uses less band width than is needed for conventional service. Teleroute users can enjoy substantial savings.

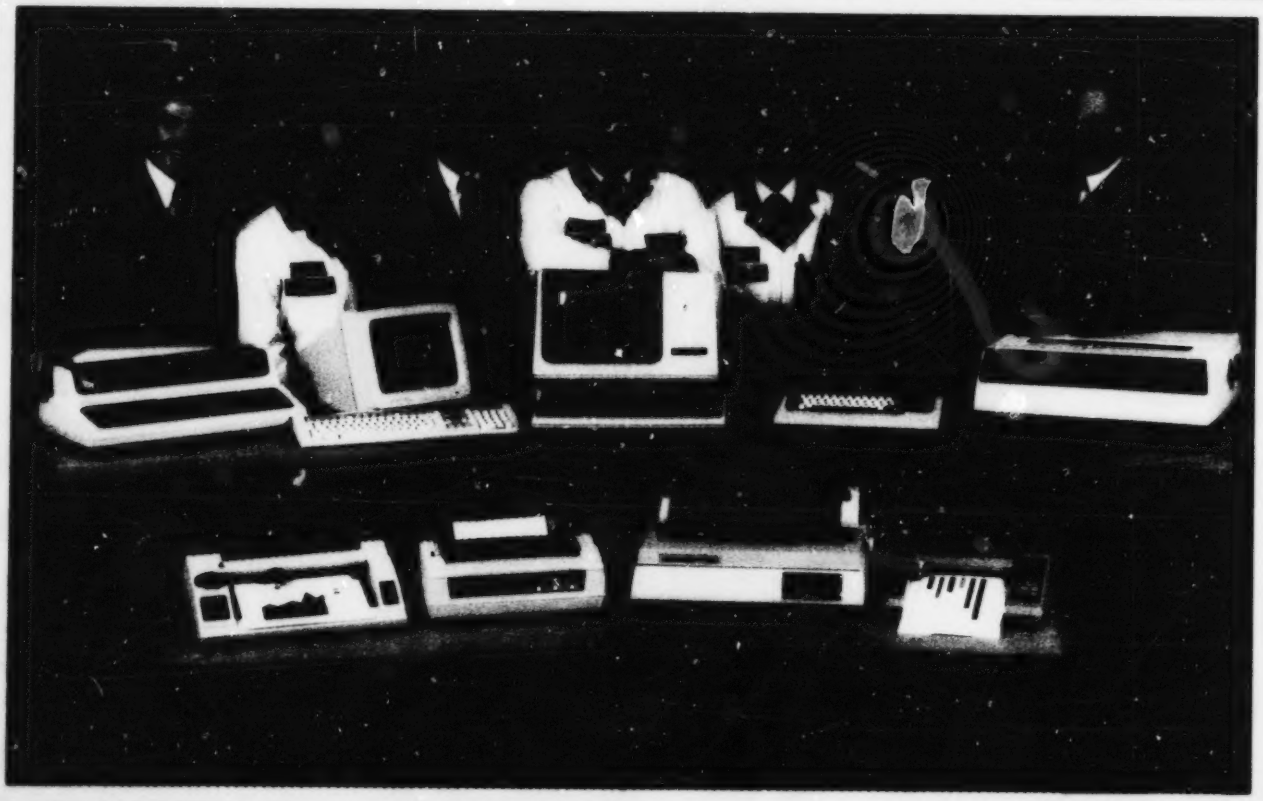
Altel Data employees design, market, install and maintain varied computer systems as part of the customers' telecommunications requirements.

A Calgary phoneCentre. In 1984 new phoneCentres or franchises opened in nine Alberta communities.

More centres get phoneCentres

AGT's phoneCentres had a busy year. Sales of residential telephones and other products and services increased by 24%.

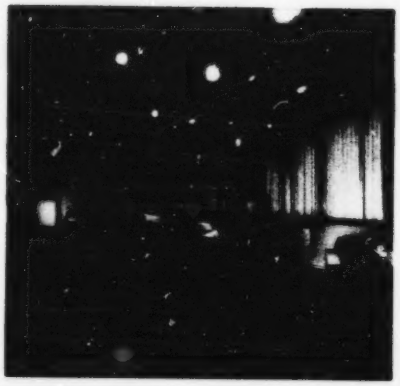
The attractive retail stores give customers an added opportunity to meet AGT people face-to-face. In 1984, as part of the commitment to smaller Alberta centres, six new stores were opened in upgraded pick-up and return depots at Leduc, Spruce Grove, Fort Macleod, Grande Cache, Stettler and Peace River.



As well, AGT took a new approach to bringing products and services to smaller communities. Three franchise locations were opened: Fort Saskatchewan, Brooks and Grand Centre.

Franchising reduces marketing costs. It supports local retailers and gives AGT the benefits of their merchandising expertise. If successful, the idea will be extended to even more communities.

Special Needs Service Centres were set up in a Calgary and an Edmonton phoneCentre. They provide full service to meet the communications needs of handicapped Albertans.



New Business SalesCentres opened in Lethbridge (above) and Red Deer.

The province-wide AltaNet 200 and 300 digital network brought low-cost data transmission to many smaller centres.

Directory Department

In the face of increased competition, revenues from advertising and bold listings in AGT directories rose by over 9.3% in 1984.

Sales Representatives were given increased sales training, and more design support to assist prospective advertisers in developing more effective messages. Keyed advertisements in the Yellow Pages were inserted to prove the value of the medium. Usage surveys were undertaken to measure the effectiveness of directory advertising.

Enhanced database management systems and improved computerized typesetting efficiencies, along with steps to reduce printing costs, contributed to better performance throughout the Directory Department.

Sales Training

Throughout AGT's marketing divisions, the year brought new emphasis on developing professional selling skills.

Over 280 training courses and incentive programs paid off in 1984. This education process will continue to strengthen AGT as a customer-oriented, market-driven company in the marketplace of tomorrow.

The Challenge of Serving Alberta and the World

There are far-reaching applications for the expertise of AGT people and the inventive technologies they develop to serve Albertans.

These can serve as the base to strengthen and diversify Alberta's economy as a global supplier of leading-edge technology.

Acting as a springboard, AGT reaches out to the world.

Alberta Telecommunications International Ltd.

Rivalry for business is fierce in the competitive world of international consulting. But in its first three years ATI, a market-driven young subsidiary wholly-owned by AGT, has secured 32 successful contracts around the world.

1984 activities involved the full-time services of 58 AGT employees. Thirty of these are a core group on loan to ATI. An additional 28 engineers, technicians, foremen and craft personnel worked on projects in the United States and overseas. Also during the year ATI drew on other AGT staff on short-term assignments to help develop tenders.

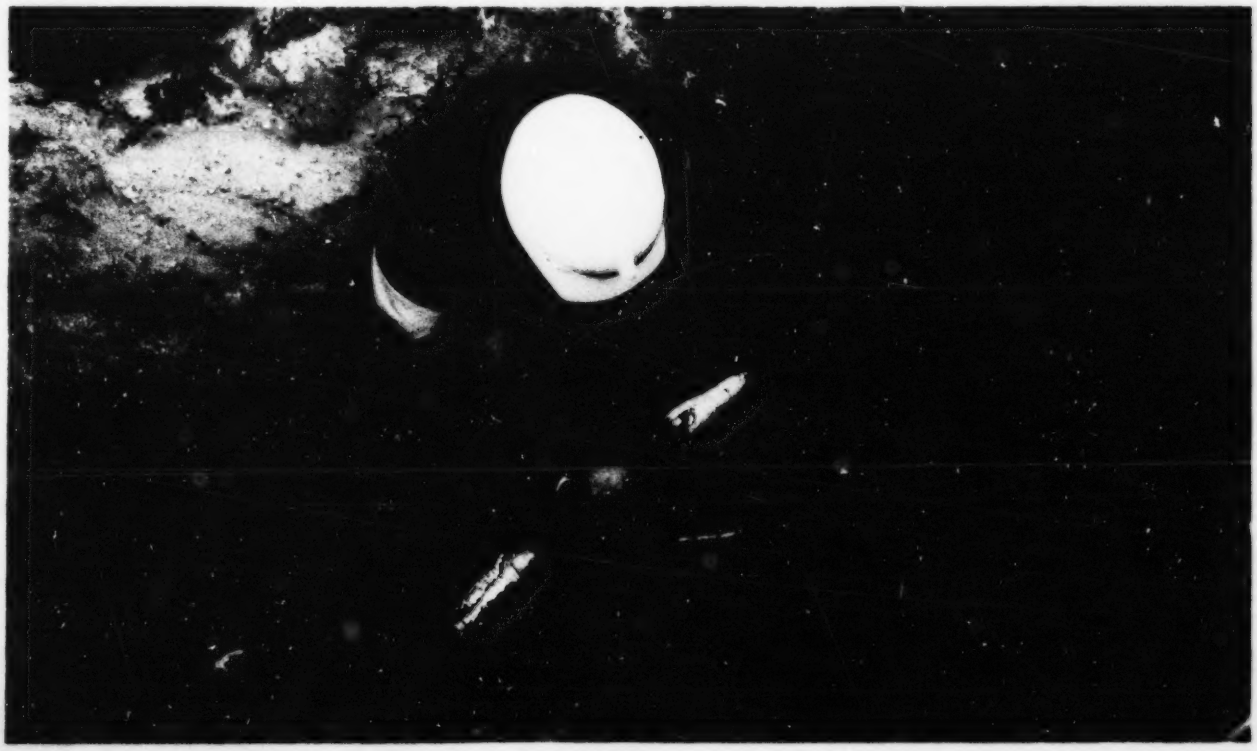
ATI priority areas are the United States, the Caribbean and the Pacific Rim.

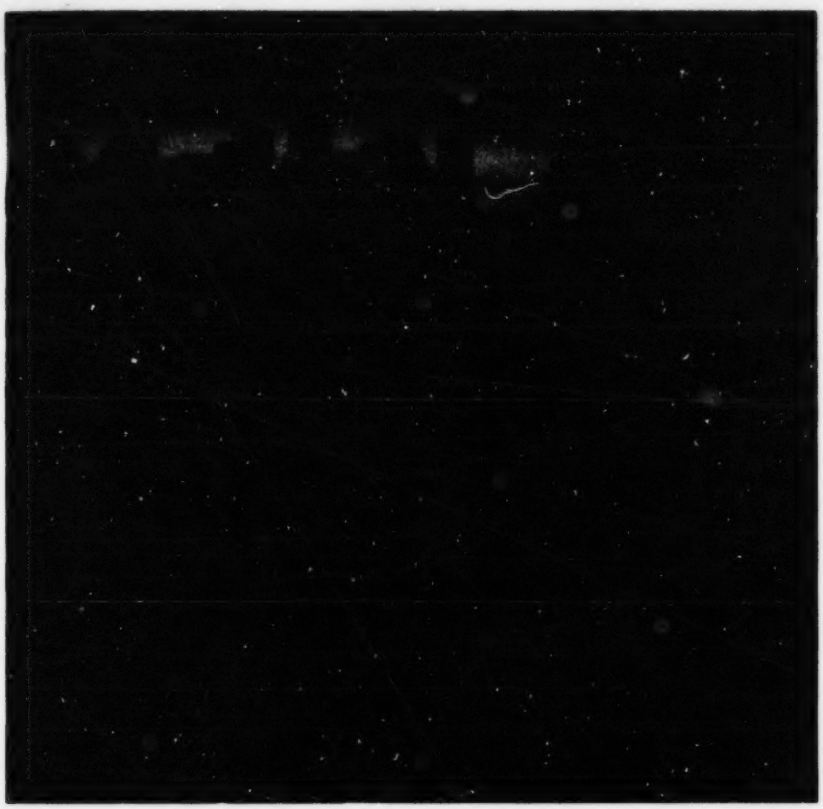
In 1984, ATI enhanced its profile in the United States by establishing a wholly-owned subsidiary, Alta Telecom Inc., in Atlanta, Georgia. The Atlanta office is staffed by three AGT employees from Edmonton. It will support the marketing drive for software control systems, outside plant engineering and central office activities in the United States.

Thanks to a successful 1984 Caribbean project completion, the Puerto Rican Telephone Company network is now monitored and controlled by an innovative AGT computerized system: Mechanization of Switch Surveillance. The MOSS system was developed by the Operations Division of AGT. The project's success could lead to more Caribbean contracts. And, in the Pacific Rim, ATI has had encouraging responses from tenders in Thailand, Malaysia, Singapore and New Zealand.

In 1985, ATI will concentrate heavy marketing thrusts on consultancy and turnkey opportunities in fibre optics, digital switching and software control systems.

AGT fibre optic expertise helps ATI serve world markets.





As a joint-venture partner in NovAtel, AGT is a leader in cellular radio technology.

NovAtel Communications Ltd.

NovAtel, creator of the history-making AURORA 400 MHz Mobile Telephone System, is a joint venture of AGT and NOVA, AN ALBERTA CORPORATION.

NovAtel provided the equipment that in 1984 helped stretch the AURORA system along the Edmonton-Red Deer-Calgary corridor and up to Grande Prairie. The AGT Mobile Communications Division is now expanding AURORA to bring provincial cellular radio coverage to Alberta.

Also, initial production of mobile telephone units began at NovAtel's new Lethbridge plant. Production is expected to reach its totally automated manufacturing capability in late 1985. The plant employs 85 people, mostly from Lethbridge. NovAtel has now created at least 310 jobs in Alberta with its Calgary and Lethbridge offices, the Calgary R & D Department and the Lethbridge plant.

In 1984, contracts valued at $23 million were closed for initial equipment installation for Cantel Inc.'s 800 MHz systems in Montreal, Toronto and Vancouver.

Overall, NovAtel experienced some start-up problems which should be solved in 1985. Sales to the United States were disappointing because of manufacturing difficulties at the Montreal plant. These problems prevented economical large-scale production of the original 800 MHz 2881 mobile designed by a NovAtel predecessor. To supplement the Montreal production, Hyundai Electronics Industries, Korea, now manufactures NovAtel's 2881 mobile telephone units under license.

Marketing strides that "opened doors" were made through CarCom Inc., a marketing joint-venture which NovAtel established in 1983 in Fort Worth, Texas. The 1984 marketing initiative has led to a signed agreement with the Ford Motor Company of Detroit for the distribution of the NovAtel mobile telephones.

The initiatives of NovAtel Communications Ltd., including its new manufacturing facility in Lethbridge, have helped bring Alberta a step closer to meeting the challenge of diversifying its economy through high technology.

NovAtel's new Lethbridge plant employs 85 local Albertans.

Alta-Can Telecom Inc.

The role of this wholly-owned venture capital subsidiary is summed up in its 1984 brochure: "Merging ideas with risk capital. We back up good ideas with risk capital, joint venture partnerships and technological enterprise."

Along with needed capital, Alta-Can brings its investments access to the world-class technology and business experience of AGT. Example: help was given to *Idacom Electronics Ltd.* of Edmonton in making a joint presentation to the Government of Australia with AGT's global marketing subsidiary Alberta Telecommunications International Ltd.

Other venture capital companies have shown interest in Idacom, which employs 35 Albertans. It is currently engaged in a joint venture with Siemens of West Germany to develop a new product line. The agreement involves technology transfer to the Edmonton company. Idacom is also pursuing an important contract with Japan's Nippon Telegraph and Telephone Public Corp.

In January, 1984, Alta-Can concluded a 20% equity agreement with *Cybernex Limited* of Ottawa. Cybernex, with its innovative display terminals, achieved sales of $10 million. Included was a $2 million inroad into the United States market. Projected for 1985: sales of $15 million, with $5 million from the United States.

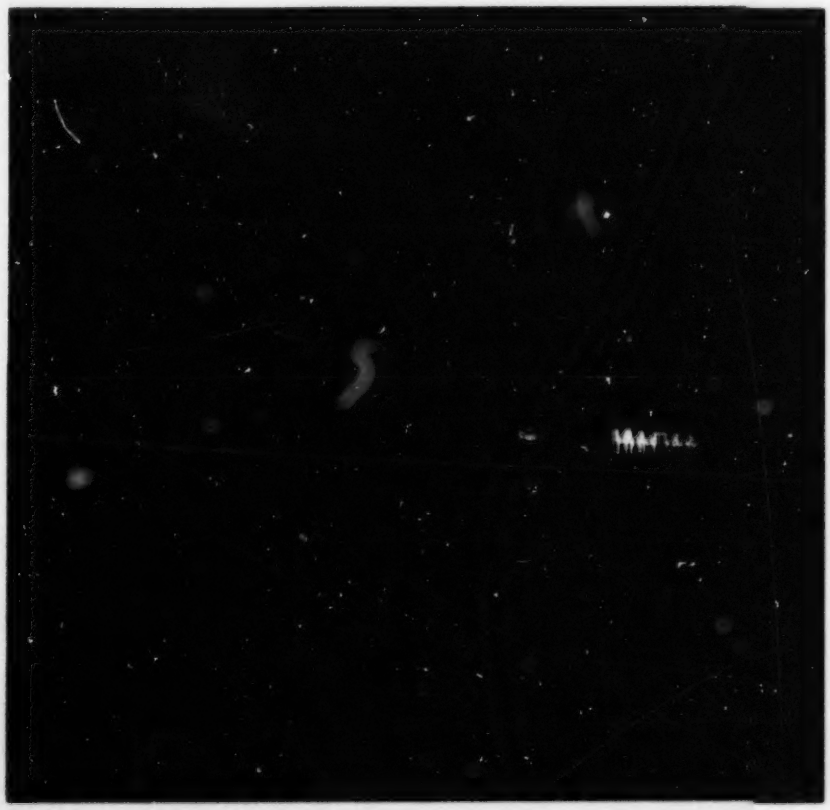
1984 brought a major joint venture breakthrough. *Telematic Products, Inc.* of Redmond, Washington, designs and builds advanced computer-based equipment for the telecommunications industry. Included are state-of-the-art data collection, billing, testing and network support systems.

Alta-Can's investment partners in Telematic are Dougery, Jones & Wilder; John Hancock Venture Capital Management, Inc.; and Cable Howse & Cozadd. All are active in the United States, so the venture can be a splendid opportunity for Alta-Can to strengthen its position in that massive "high-tech" market. The presence there of Canadian venture capital can play a role in the market's acceptance of Canadian products.

Telematic 1984 sales came in at $7 million, with $19 million forecast for 1985.

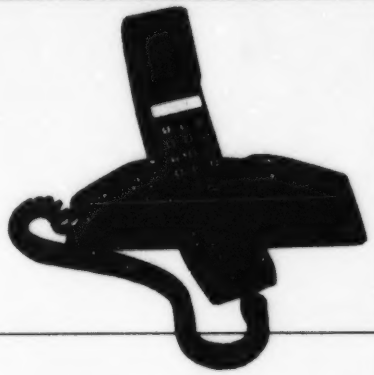
Alta-Can is discussing the terms of a joint venture with Telematic in Alberta. It is expected to involve a wholly new Telematic product. Finding more opportunities to contribute to the province's industrialization is an ongoing challenge.

Cybernex Limited, an Alta-Can investment, had 1984 sales of $10 million.



Alta-Can's first investment venture was Idacom Electronics Ltd. in Edmonton.

Financial Review



Operating Revenues

The recovery of the Alberta economy, which had originally been expected during the second half of 1983, became clearly evident in 1984. Long distance messages, which grew by only 0.2% in 1983, increased by 4.2% in 1984, while subscriber lines in service grew by 2.1% in 1984 compared to only 0.9% in 1983. Similarly, mobile telephone service and terminal equipment sales showed improvement in 1984. While the recovery is not affecting all aspects of the economy nor all areas of the province equally, it is broadly enough represented in AGT's business to offer greater optimism for 1985. Growth in long distance messages began firming late in the second quarter of 1984, and in the fourth quarter messages have shown strong growth. This pattern was also quite common in the other categories of revenue, although many did not show the improvement until the middle of the third quarter.

While it is recognized that the Alberta recovery is susceptible to potentially adverse factors originating outside our borders and beyond our control, it is expected that the recovery will become more widely and solidly established in 1985.

A decision on the 1983 General Rate Application was received in 1984, with the Public Utilities Board of Alberta approving the implementation of an interim rate increase effective July 1, 1984. This decision has had an obvious beneficial effect on 1984 Operating Revenues. An important aspect of the increase was that it consisted of two parts — the first being the interim rates that are necessary to generate the allowable revenue requirement, and the second part being a "deficiency rider" granted to recover $23.8 million of the shortfall from the 1983 revenue requirement, plus the shortfall in 1984 revenues resulting from not having the final rates in effect until the middle of the year. It is expected that these shortfalls will be recovered by about August 1985, and that rates will be decreased to final approved rates at that time.

The recovery in the Alberta economy and the PUB decision on the 1983 General Rate Application are two major, very positive factors that have influenced revenues in 1984. These are reflected in the fact that Total Operating Revenues increased by 9.6% to $978.8 million in 1984, an improvement over the 8.2% growth in 1983.

Toll Revenues amounted to $616.5 million, an increase of 7.8% over 1983, while Exchange Revenues increased by 6.8% to a total of $281.6 million. In 1984, Toll Revenues accounted for 62.9% of total revenues, down from the 64.1% of total in 1983; 64.4% in 1982; and 66.5% in 1981. While this trend offers some encouragement, with the increasing likelihood of competition in long distance service forcing some reduction in the level to which toll revenues will be able to continue to subsidize local service revenues, clearly it is not enough. In the years to come it is inevitable that some rebalancing of rates will be required to ensure that revenues from local and toll services more closely relate to the costs of providing those services.

Other Revenues increased by 44.8% or almost $29 million in 1984, from $63.9 million to $92.5 million. Net Sales of equipment and maintenance contracts account for the majority of this growth. The increase in this area reflects customer acceptance of the purchase option which was introduced in 1982, as well as the products and services offered by AGT.

Uncollectible Revenues amounted to $11.8 million or 1.2% of total revenues, up from $6.8 million or 0.8% in 1983. An estimated $3.5 million of the uncollectible revenue provision resulted from 'edmonton telephones' service disruptions and scrambling of information required to bill long distance messages originating in the City of Edmonton. While much of this loss occurred in the initial few days before Operator Number Identification procedures were established, and relatively little from customer fraud, the amount is of concern since it is a totally unnecessary cost to customers throughout the province. AGT has instituted legal action to recover this amount and the related additional operating expenses.

Operating Expenses

Cost control and productivity improvement continued to be dominant factors in restraining the level of Operating Expenses in 1984. Total Operating Expenses increased by only 4.7% despite the fact that AGT pension contributions, which were not required to be made in 1983, were resumed in 1984. Further, additional costs of about $4.8 million have been incurred because of Operator Number Identification procedures and additional billing and collection activities resulting from the actions taken by 'edmonton telephones' and the City of Edmonton when provision of the required billing information was terminated.

Total payroll costs in 1984 decreased from 1983, with the number of employees on staff declining for the third consecutive year. The reductions have been achieved through hiring restrictions and productivity improvements, the latter reflecting the efforts of AGT's highly-skilled employees.

The composite depreciation rate has declined from 7.9% in 1983 to 7.6% in 1984, due to continued efforts to maintain capital expenditures as low as possible and to achieve effective equipment utilization, while at the same time maintaining high quality service to our customers. Maintenance Expense increased by 3.8% to $171.1 million in 1984 as part of that same effort to ensure reliability of service.

The growth in General and Administration Expenses has again been cut by more than half from 27.9% in

1982, to 13.1% in 1983, down to only 4.9% in 1984. This very substantial reduction was achieved while at the same time undertaking the major administrative efforts of establishing clear directional plans and reviewing the organization structure in line with the challenges of the future.

Capital Expenditures, Financing, and Interest Charges

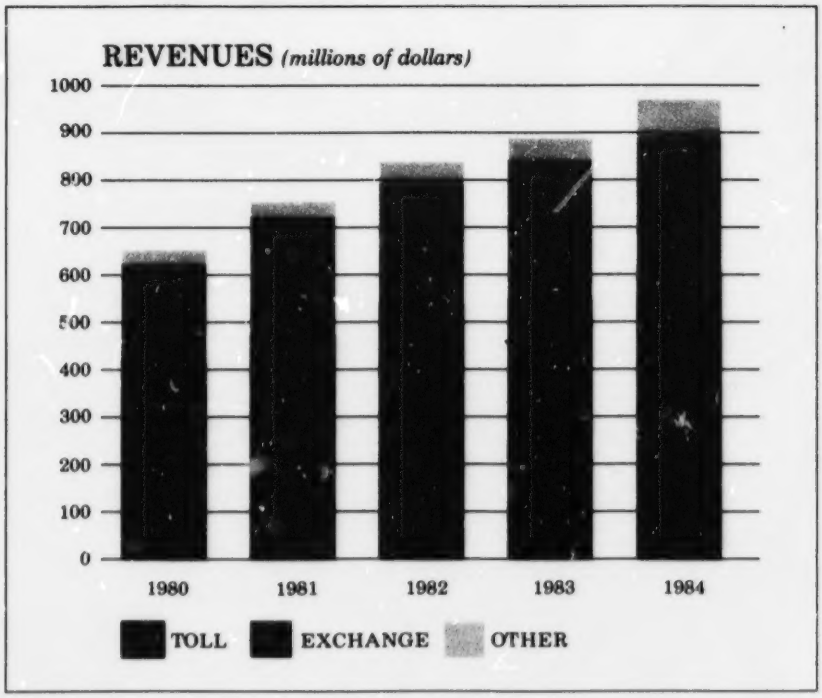
In line with overall cost control measures, Capital Expenditures have again been reduced, to $215.9 million in 1984, compared to $222.8 million in 1983, and $473.5 million in 1982.

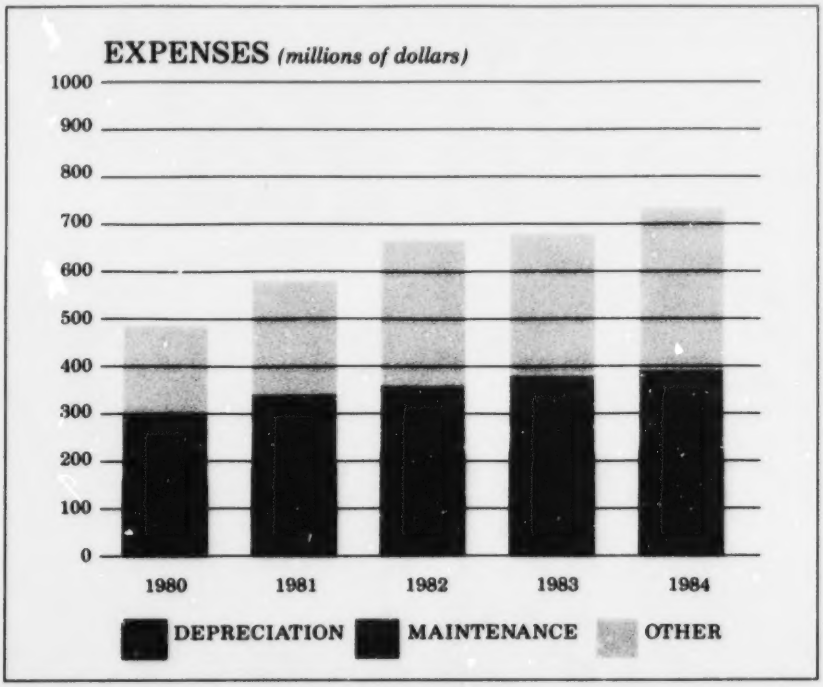
The private placement of a $50 million, 15-year 11.7% debenture issue was completed in 1984. In addition, extensive use of short-term financing has enabled AGT to take advantage of the decline in interest rates that occurred in 1984, to reduce interest costs over what would otherwise have been realized. The increase in short-term Notes Payable amounted to $144.0 million. Funds provided from operations increased by 15.5% to $234.5 million, thus reducing the requirement for additional external funds. Proceeds of the external financings were used primarily to reduce long-term debt by $151.5 million and to finance capital expenditures.

Interest costs in 1984 were only 3.4% higher than in 1983, despite an increase in interest payments on the portion of our debt issued in U.S. funds resulting from the increase in value of the U.S. dollar, and an increase in the overall Imbedded Cost of Long-Term Debt (Outstanding Proceeds) from 12.58% to 12.98%. The 1984 increase in Interest & Other Deductions compares very favourably with the 15.5% growth in 1983 and 35.7% increase in 1982.

Income and Retained Earnings

After Losses Before Extraordinary Items of $56.5 million in 1982 and $31.0 million last year, 1984 saw the return to profitability that was predicted at the beginning of the year. Net Income Before Extraordinary Items of $22.1 million represents a very significant turnaround that is the result of major effort and close cooperation of employees throughout the Company. Extraordinary Items, consisting primarily of the AGT share of the writedown of costs related to the NovAtel Communications Ltd. operated joint venture, reduced this income by $11.0 million, leaving a Consolidated Net Income of $11.1 million for the year 1984. This compares to a Net Loss in 1983 of $22. 9 million. Retained Earnings increased from a balance of $49.9 million at the beginning of the year to $61.1 million at the end of 1984, enabling the proportion of total capital made up by Retained Earnings to increase, after three years of decline. The ratio of debt to total capital decreased from 97.6% to 97.1%.





Management Report

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and information in the Annual Report are the responsibility of management and have been approved by the AGT Commission. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and of necessity include some amounts that are based on estimates and judgments. Financial information presented throughout the Annual Report is consistent with that in the consolidated financial statements.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of internal accounting controls comprising written policies, standards and procedures, a formal authorization structure, and an internal audit program. This system is designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded. The Company has also established a Code of Business Conduct and corporate directives which require communication of the Code to employees.

The Commission carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the AGT Commission. This Committee meets periodically with management and the auditors to discuss and review audit and financial matters, and recommends the financial statements to the Commission for approval. The Company's external auditor has full and free access to the Audit Committee.

The Auditor General of Alberta, the Company's external auditor, appointed through The Alberta Government Telephones Act, is engaged to provide an independent audit of the consolidated financial statements. The Auditor's Report is presented below.

On behalf of Management,

H.M. Neldner
President

F.J. Parrotta
Comptroller & Treasurer
Edmonton, Alberta
March 11, 1985

Auditor's Report

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

To the Members of
The Alberta Government Telephones Commission

I have examined the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1984 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F.C.A.
Auditor General
Edmonton, Alberta
March 11, 1985

Consolidated Balance Sheet

as at December 31, 1984
(thousands of dollars)

Assets

	1984	1983
Telephone Property, at cost:		
Buildings and equipment	$ 3 035 415	$ 2 940 132
Less: Accumulated depreciation	1 126 483	1 004 047
	1 908 932	1 936 085
Land	46 175	47 070
Plant under construction	57 783	67 037
Materials and supplies	68 619	66 880
	2 081 509	2 117 072
Intangible Asset (Note 3)	672	1 344
Investments (Note 4)	6 903	3 580
Current:		
Cash	1 812	6 755
Short-term deposits	1 091	7 784
Accrued interest	1	216
Accounts receivable	132 986	115 974
Prepaid expenses	12 881	11 614
Net investment in leases and mortgages (Note 5)	8 321	2 591
	157 092	144 934
Net Investment in Leases and Mortgages (Note 5)	29 159	9 400
Deferred Charges (Note 6)	48 188	34 713
	$ 2 323 523	$ 2 311 043

The accompanying notes are part of these consolidated financial statements.

Liabilities

	1984	1983
Long-Term Debt (Note 7)	$ 2 202 480	$ 2 288 241
Less: Sinking fund assets (Note 8)	316 001	247 331
	1 886 479	2 040 910
Current:		
Bank overdraft	2 065	—
Notes payable	170 053	26 020
Accounts payable	43 174	40 514
Wages payable	56 896	51 426
Accrued interest	57 622	59 495
Service billed in advance	25 503	22 601
Current portion of mortgages payable (Note 7)	364	1 548
	355 677	201 604
Deferred Revenue	20 304	18 581
Retained Earnings	61 063	49 948
Contingent Liabilities (Note 15)		
	$ 2 323 523	$ 2 311 043

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1984
(thousands of dollars)

	1984	1983
Operating Revenues:		
Toll	$ 616 456	$ 571 905
Exchange	281 640	263 807
Other (Note 9)	92 501	63 883
Uncollectible operating revenues	(11 754)	(6 845)
	978 843	892 750
Operating Expenses:		
Depreciation	219 011	217 546
Maintenance	171 097	164 809
Traffic	34 111	34 653
Commercial and marketing	68 403	71 060
General and administration	193 362	184 361
Property and business taxes	22 509	20 615
Pension fund (Note 10)	20 005	2 598
	728 498	695 642
Net Operating Revenues	250 345	197 108
Other Income (Note 11)	61 050	51 751
	311 395	248 859
Interest and Other Deductions (Note 12)	289 281	279 818
Net Income (Loss) Before Extraordinary Items	22 114	(30 959)
Extraordinary Items (Note 13)	(10 999)	8 045
Net Income (Loss) for the Year	11 115	(22 914)
Retained Earnings at Beginning of Year	49 948	72 862
Retained Earnings at End of Year	$ 61 063	$ 49 948

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1984
(thousands of dollars)

	1984	1983
Funds Were Provided From:		
Operations:		
Net income (loss) for the year	$ 11 115	$ (22 914)
Items not requiring current funds:		
Depreciation and amortization	229 653	237 028
Capitalized interest	(6 219)	(11 030)
	234 549	203 084
Long-term debt issues	50 000	180 000
Increase in deferred revenue	1 723	4 528
	286 272	387 612
Funds Were Applied To:		
Additions to telephone property, net:		
Capital expenditures	215 922	222 809
Less: Items not requiring current funds	25 241	43 927
	190 681	178 882
Increase in materials and supplies	1 739	9 181
	192 420	188 063
Reduction of long-term debt	151 546	141 434
Increase in sinking fund assets	38 739	48 804
Increase in net investment in leases and mortgages	19 759	8 677
Increase in investments	3 323	511
Additions to deferred charges	22 400	6 276
Addition to intangible asset	—	2 016
	428 187	395 781
Decrease in Net Current Assets	$ (141 915)	$ (8 169)

Notes to the Consolidated Financial Statements December 31, 1984

Note 1 Authority

The Alberta Government Telephones Commission operates under the authority of The Alberta Government Telephones Act, Chapter A-23, Revised Statutes of Alberta 1980.

Note 2 Summary of Significant Accounting Policies

(a) Telephone Property

Telephone property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and interest on funds utilized during construction. Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of the capitalization policy with respect to general overhead costs in accordance with accounting standardization policies of the Telecom Canada companies.

Resulting from this review, no changes in capitalization of general overhead costs were made in 1984.

(b) Depreciation

Depreciation is provided on a straight-line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telephone property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telephone property are allocated to operations over the remaining estimated useful lives of appropriate property groups.

When depreciable telephone property subject to resale in the ordinary course of business (such as customer premise equipment) is sold, the original cost of such property less accumulated depreciation is netted against sale proceeds and the difference is reflected in Other Operating Revenues.

The composite depreciation rate for the year ended December 31, 1984 was 7.62% compared to 7.89% for the previous year. Total depreciation of $236 633 000 (1983 $234 389 000) includes $15 190 000 (1983 $13 957 000) distributed to other operating expenses and $2 432 000 (1983 $2 886 000) distributed to telephone property.

(c) Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date.

Realized exchange gains or losses are reflected in net income for the year.

Unrealized exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

(d) Deferred Revenue

Deferred revenue relates to the capital cost of equipment rented under operating leases and is recognized as income on a straight-line basis over the estimated useful life of the equipment.

(e) Amortization

Deferred charges, discounts or premiums on long-term monetary assets and liabilities are amortized on a straight-line basis over the remaining lives of the related assets and liabilities.

Intangible Assets are amortized on a straight-line basis over a specified period.

(f) Investment in Leases
Finance income related to sales-type leases is taken into income over the lease term to produce a constant rate of return on the investment in the lease.

(g) Consolidation
These consolidated financial statements include the accounts of wholly-owned subsidiaries, Alberta Telecommunications International Ltd. (together with its wholly-owned subsidiary Alta Telecom Inc.), Alta-Can Telecom Inc., 288922 Alberta Ltd. (together with its wholly-owned subsidiary 288951 Alberta Ltd.). Also included is 288951 Alberta Ltd.'s pro rata portion of the assets, liabilities, income and expenses of its unincorporated telecommunications joint venture undertaking. All significant transactions between these companies included in the consolidation have been eliminated.

Note 3 Intangible Asset

The intangible asset represents the excess of the cost of acquiring a directory publishing business in January, 1983 over the value of the identifiable net assets at the date of acquisition. This amount is being amortized on a straight-line basis over a period of three years commencing from the date of acquisition.

Note 4 Investments

Investments consist of the following:

	1984	1983
Telesat Canada		
279 900 common shares without par value, at cost	**$ 2 799 000**	$ 2 799 000
Alberta One-Call Location Corporation		
40 common shares without par value, at cost	**20 000**	—
Elinca Communications Ltd.		
2 common shares without par value, at cost	**2**	2
Cybernex Ltd.		
(held by Alta-Can Telecom Inc.)		
2 000 preferred shares without par value, at cost	**2 000 000**	—
150 000 common shares without par value, at cost	**15**	—
Telematic Products, Inc.		
(held by Alta-Can Telecom Inc.)		
285 714 preferred shares, par value $.10 U.S., at cost	**1 300 399**	—
Idacom Electronics Ltd.		
(held by Alta-Can Telecom Inc.)		
30 395 common shares without par value, at cost	**550 000**	550 000
NovAtel Communications Ltd.		
(held by 288951 Alberta Ltd.)		
44.5 common shares without par value	**181 236**	181 236
500 non-voting preferred shares, par value $100, at cost	**50 000**	50 000
Consortex Exploration Ltd.		
(held by Alberta Telecommunications International Ltd.)		
1 preferred share, at cost	**2 083**	—
	$ 6 902 735	$ 3 580 238

The common and preferred shares of NovAtel Communications Ltd. are 50% owned by the Commission. NovAtel was appointed the operator of a telecommunications joint venture undertaking of the Commission on January 14, 1983. The common shares of NovAtel Communications Ltd. have been valued using the equity method.

Note 5 Net Investment in Leases and Mortgages

The net investment in leases and mortgages results from the sale of assets to customers under a lease purchase plan and from the sale of rental homes to employees. Principal due within one year has been reclassified under current assets.

Net investment in leases and mortgages consists of the following:

	1984	1983
	(thousands of dollars)	
Total minimum lease and mortgage payments receivable	$ 49 277	$ 16 257
Unearned income	(11 797)	(4 266)
	37 480	11 991
Less: current portion	8 321	2 591
	$ 29 159	$ 9 400

Note 6 Deferred Charges

Unamortized deferred charges consist of the following:

	1984	1983
	(thousands of dollars)	
Unrealized exchange loss, net	$ 30 105	$ 20 928
Debenture discounts	11 200	10 756
Other	6 883	3 029
	$ 48 188	$ 34 713
Amortization charged to net income for the year	$ 8 867	$ 4 684

Note 7 Long-Term Debt

Long-term debt is summarized as follows:

	1984	1983
	(thousands of dollars)	
Debentures payable in United States funds, maturing 1985 to 1996, bearing interest at 4.75% to 9.50%	$ 207 781	$ 208 910
Exchange premium, net, at dates of issue	13 433	13 459
Unrealized exchange loss	53 410	37 598
	274 624	259 967
Debentures payable in Canadian funds, maturing 1985 to 2003, bearing interest at 5.25% to 17.75%	1 915 396	2 015 396
Mortgages payable in Canadian funds, repayable in monthly instalments, maturing 1985 to 2000, bearing interest at 8.25% to 11.50%	12 824	14 426
Less: Principal included in current liabilities	364	1 548
	12 460	12 878
	$ 2 202 480	$ 2 288 241

(a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.

(b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.00% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.

(c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 2 to 4 years for Canadian dollar issues and 10 to 13 years for United States dollar issues.

(d) Amounts of debentures repayable within one year are classified as long-term debt inasmuch as it is anticipated that payments will be made from the proceeds of refinancing rather than from current assets.

(e) Anticipated requirements to meet long-term debt repayments and sinking fund provisions during the next five years (excluding exchange on debt repayments to be made in United States funds), are as follows:

Year	Debenture Redemptions	Mortgages	Sinking Fund Provisions	Total
		(thousands of dollars)		
1985	$ 102 871*	$ 364	$ 24 203	$ 127 438
1986	126 241	396	24 003	150 640
1987	376 302	431	24 003	400 736
1988	1 367	469	24 003	25 839
1989	100 000	510	24 003	124 513
	$ 706 781	$ 2 170	$ 120 215	$ 829 166

* A $100 million debenture issue due in 1985 with maturity date extendable to 1991 at the option of the holder is included in the 1985 debenture redemptions amount.

Note 8 Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:

	1984	1983
	(thousands of dollars)	
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed	$ 193 109	$ 113 220
Provincial, direct and guaranteed	36 080	44 125
Investment in the Commission's own debentures, at amortized cost	63 591	70 229
Unrealized exchange gain	8 730	6 245
(Approximate market value: 1984 $299 498; 1983 $229 888)	301 510	233 819
Cash	99	(118)
Short-term deposits	8 323	6 810
Accrued interest	6 069	6 820
	$ 316 001	$ 247 331

Note 9 Other Operating Revenues

Other operating revenues consist of the following:

	1984	1983
	(thousands of dollars)	
Directories	$ 25 948	$ 23 749
Rentals	12 792	14 547
Net Sales	44 452	26 809
Miscellaneous	9 309	(1 222)
	$ 92 501	$ 63 883

Miscellaneous revenue includes a lease buy-out of $4 414 000 in 1984.

Note 10 Pension Fund

The Commission makes regular contributions to The Alberta Government Telephones Employees' Pension and Death Benefit Fund which provides service pensions calculated as a function of earnings and years of service. An actuarial review as at December 31, 1983 indicated that the assets of the Fund together with the contributions expected to be received from the members of the Fund were sufficient to provide the benefits under the Fund as they fall due. Pursuant to amendments made to the Pension Fund which were approved by an Order in Council, the Commission was not required to make regular contributions for the calendar year 1983. The amount of such contributions would have been $22 179 000, of which $18 046 000 would have been expensed.

Note 11 Other Income

Other income consists of the following:

	1984	1983
	(thousands of dollars)	
Sinking fund income	$ 40 745	$ 25 162
Interest capitalized during construction	6 219	11 030
Dividends from investment in Telesat Canada shares	140	280
Miscellaneous	13 946	15 279
	$ 61 050	$ 51 751

Note 12 Interest and Other Deductions

Interest and other deductions consist of the following:

	1984	1983
	(thousands of dollars)	
Interest and exchange on long-term debt	$ 269 555	$ 270 997
Interest on short-term debt	8 444	—
Amortization of unrealized exchange loss, net	4 379	2 492
Amortization of debenture discount	3 900	1 952
Other deductions	3 003	4 377
	$ 289 281	$ 279 818

Note 13 Extraordinary Items

On December 31, 1983 the Commission and the City of Edmonton exchanged local telephone service and associated assets pursuant to the provisions of the AGT - edmonton telephones Act and a subsequent agreement. The Commission sold assets located within the City of Edmonton and acquired assets located outside those boundaries. The estimated excess of the net sales proceeds over the net book value and related expenses of $3 257 000 was recorded in 1983. Upon finalization of sale quantities and prices in 1984, a further excess of net sale proceeds over book value of $1 264 000 was recorded.

Cancellation of a mobile radio project undertaken in a joint venture through NovAtel Communications Ltd. resulted in the write-off of deferred acquisition and development costs, along with losses on 1984 sales and the write-down of related inventories to net realizable value. The Commission's share of the write-down amounted to $12 263 000.

Note 14 Commitments

The Commission is committed to aggregate rental payments of $22 550 000 under leases having an initial term of more than one year. Minimum annual rental payments during the next five years are as follows:

Year	Rental Payments *(thousands of dollars)*
1985	$ 7 937
1986	6 208
1987	4 365
1988	1 696
1989	706

Note 15 Contingent Liabilities

On February 10, 1984 the City of Edmonton filed a Statement of Claim, subsequently amended on February 17, 1984 and December 12, 1984 alleging entitlement to a greater portion of the revenue generated from long distance calls originating and terminating in the City of Edmonton. The amount claimed is $116 860 000 plus interest. Because of action taken by 'edmonton telephones' under direction from the City of Edmonton, to withhold information related to long distance messages originating with customers within the City of Edmonton, the Commission has filed a Statement of Claim against the City of Edmonton. The Claim is to cover potential loss of revenue and increased billing, collection, and operating costs, which to December 31, 1984 amounted to $8 242 000. The probable outcome of these claims is not determinable at this time, as they are related to the broader issues of network interconnection, revenue settlement, and operating jurisdiction currently being negotiated between the Government of Alberta and the City of Edmonton.

Note 16 Comparative Figures

The 1983 figures have been restated where necessary to conform to 1984 presentation.

Note 17 Approval of Financial Statements

These financial statements were reviewed by the Audit Committee of the Alberta Government Telephones Commission and recommended for approval by the Commission.

Historical Summary

	1984	1983	1982
FINANCIAL POSITION *(in thousands)*			
TOTAL PLANT INVESTMENT	$ 3 139 373	$ 3 054 239	$ 2 976 148
ACCUMULATED DEPRECIATION	1 126 483	1 004 047	884 195
LONG-TERM DEBT	2 202 480	2 288 241	2 248 756
RETAINED EARNINGS	61 063	49 948	72 862
INCOME *(in thousands)*			
OPERATING REVENUES	$ 978 843	$ 892 750	$ 825 346
OPERATING EXPENSES	728 498	695 642	690 577
OTHER INCOME	61 050	51 751	51 115
INTEREST & OTHER DEDUCTIONS	289 281	279 818	242 360
EXTRAORDINARY ITEMS	(10 999)	8 045	—
NET INCOME (LOSS)	11 115	(22 914)	(56 476)
CAPITAL EXPENDITURES *(in thousands)*	$ 215 922	$ 222 809	$ 473 516
TOTAL PAYROLL *(in thousands)*	$ 357 032	$ 359 675	$ 351 061
CORPORATE STATISTICS			
TOTAL EMPLOYEES	11 660	11 926	12 814
SUBSCRIBER LINES IN SERVICE	745 617	730 297	723 667
LONG DISTANCE MESSAGES *(in thousands)*	214 357	205 808	205 420
CENTRAL OFFICE EXCHANGES	430	420	424
EMBEDDED COST OF LONG-TERM DEBT (OUTSTANDING PROCEEDS)	12.98%	12.58%	12.35%

1981	1980	1979	1978	1977	1976	1975
$ 2 657 077	$ 2 244 861	$ 1 932 576	$ 1 678 979	$ 1 476 011	$ 1 289 070	$ 1 101 687
786 917	638 309	516 193	420 808	344 202	290 279	248 300
1 916 270	1 644 034	1 437 719	1 303 090	1 167 911	1 036 982	885 754
129 338	128 282	103 534	79 152	63 281	59 420	57 666
$ 734 462	$ 636 828	$ 529 018	$ 443 471	$ 367 811	$ 307 801	$ 239 786
596 546	498 153	407 616	338 838	288 464	245 002	197 557
41 303	25 608	19 087	15 422	14 734	13 384	12 875
178 163	139 535	116 107	104 184	90 220	74 749	57 799
—	—	—	—	—	320	—
1 056	24 748	24 382	15 871	3 861	1 754	(2 695)
$ 480 014	$ 380 957	$ 314 313	$ 261 070	$ 246 186	$ 243 898	$ 254 980
$ 307 995	$ 258 790	$ 214 825	$ 189 045	$ 169 841	$ 149 661	$ 127 542
13 429	12 326	11 229	10 696	10 357	9 958	9 572
705 352	658 292	606 648	560 920	521 316	486 896	458 673
198 930	177 788	148 957	126 654	109 456	95 522	92 171
408	402	398	387	379	375	373
11.28%	9.87%	8.93%	8.68%	8.35%	8.10%	7.84%

OFFICERS, MANAGEMENT AND COMMITTEES OF THE COMMISSION

Chairman ..... *H.B. Hobbs*

President ..... *H.M. Neldner*

Assistant Vice-President Corporate Development & Regulatory Affairs ..... *J.E. Fyles*
Manager Internal Audits ..... *E.G. Cherneski*
General Counsel ..... *S.N. Douglas*
General Manager Productivity Improvement ..... *M.J. Macartney*
General Corporate Development Manager ..... *P.G. McLean*
Comptroller & Treasurer ..... *F.J. Parrotta*

Executive Vice-President ..... *J. Szaszkiewicz*
General Manager Business Communications ..... *J.S. Kortbeek*
Directory Manager ..... *S.T. Noble*
General Manager Altel Data ..... *H.J. Stech*
General Manager Mobile Communications ..... *E.A. Tucker*
General Personnel Manager ..... *W.R. Stuart*

Vice-President Operations ..... *J.R. McDonald*
General Customer Relations Manager ..... *F.C. Davies*
General Operations Manager North ..... *H. Mandryk*
General Security & Claims Manager Edmonton ..... *A.W. Reimer*
General Operations Services Manager ..... *H.W. Schroder*
General Operations Manager South ..... *J.W. Thiessen*

Vice-President Engineering ..... *D.F. Baillie*
Director Pension Fund Investments ..... *R.G. Bertram*
General Network Planning & Design Manager ..... *J.D. McDonald*
General Pension Administration Manager ..... *H.J. McNeely*
General Network Implementation & Staff Manager ..... *G.S. Raitt*
General Public Relations Manager ..... *N.G. Sarofen*
General Systems & Methods Manager (acting) ..... *C. Loos*

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R.A. Bickell
J.W. Burrows
A.F. Collins
W.A. Graham
V.A. MacNichol
H.M. Neldner
F.S. Weatherup

Audit Committee*
W.A. Graham ..... *Chairman*
R.A. Bickell
A.F. Collins
V.A. MacNichol

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W.A. Graham
J. Szaszkiewicz

Research & Development Committee*
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D.F. Baillie
J.W. Burrows
J. Szaszkiewicz
F.S. Weatherup

* *ex-officio*
H.B. Hobbs
H.M. Neldner

ATI Board of Directors
J. Szaszkiewicz ..... *Chairman*
R.A. Bickell
W.A. Graham
H.B. Hobbs
H.M. Neldner

NovAtel Board of Directors
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F.S. Weatherup ..... *Vice-Chairman*
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J.W. Burrows
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J. Szaszkiewicz

Alta-Can Telecom Board of Directors
D.G. Skagen ..... *Chairman*
J.W. Burrows
H.B. Hobbs
A.A. MacKinnon
J. Szaszkiewicz
F.S. Weatherup

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